

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

LAKE FOREST SCHOOL DISTRICT

**INTERNAL ACCOUNTS
AND
INVENTORY RECORDS
SPECIAL INVESTIGATION**

FIELDWORK END DATE: MAY 11, 2006

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EXECUTIVE SUMMARY

ALLEGATION

The Office of Auditor of Accounts (AOA) received an allegation regarding Lake Forest North Elementary School. The complainant alleged that there was a theft of student funds at North Elementary.

BACKGROUND

A complainant alleged that there was a theft of student funds at North Elementary. Upon inquiry, AOA discovered that North Elementary had contacted the Felton Police Department (Police) regarding a theft of \$360 from a filing cabinet. North Elementary received the funds for tuition payment for the Pre-Kindergarten Program. The Police confirmed that they were conducting an investigation of a theft of \$360. The Police had also been contacted regarding thefts of equipment from North Elementary, including palm pilots and laptop computers.

CONCLUSIONS

- The allegation of a theft of funds at North Elementary was substantiated.
- The District has insufficient controls to safeguard the State's assets.

TABLE OF CONTENTS

Audit Authority	1
Allegation and Background	2
Objectives, Scope and Methodology	4
Findings and Recommendations	5
Distribution of Report	8

AUDIT AUTHORITY

Title 29, Del. C., c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received an allegation regarding Lake Forest North Elementary School. The complainant alleged that there was a theft of student funds at North Elementary.

BACKGROUND

Lake Forest School District

Lake Forest School District (the District) serves more than 3,000 students who live in Felton, Viola, Frederica, and Harrington. The District is comprised of four elementary schools, one middle school, a high school, and an early childhood center:

<u>School</u>	<u>Grades</u>	<u>Location</u>
Central Elementary School	5-6	Felton
East Elementary School	KN-4	Frederica
North Elementary School	BK-4	Felton
South Elementary School	KN-4	Harrington
W.T. Chipman Middle School	7-8	Harrington
Lake Forest High School	9-12	Felton
Early Childhood Center	Ungraded	Harrington

Members of the District's Business Office staff carry out the District's business, based on instructions from the Lake Forest Board of Education, ensuring that school business runs smoothly. They work with the board and the Superintendent of Schools on budgets, staffing, contracts, administration, enrollment, busing, child nutrition, Title 1 and special programs, and maintenance of the District's buildings and grounds.

Allegation

A complainant alleged that there was a theft of student funds at North Elementary. Upon inquiry, AOA discovered that North Elementary had contacted the Felton Police Department (Police) regarding a theft of \$360 from a filing cabinet. North Elementary received the funds for tuition payment for the Pre-Kindergarten Program. The Police confirmed that they were conducting an investigation of a theft of \$360. The Police had also been contacted regarding thefts of equipment from North Elementary, including palm pilots and laptop computers.

Student Activity Accounts

Student Activity Accounts are intended for funds belonging to student organizations and clubs under the guidance of faculty or staff. Responsibility for safeguarding student activity funds resides with the individual schools.

Inventory

The District purchases and maintains numerous items required for the education of its students, including computers, furniture, digital cameras, construction and trades equipment, etc.

ALLEGATION AND BACKGROUND

Internal Control

The District is responsible for establishing and maintaining an effective system of internal controls. A well designed system of controls must include written policies and procedures to ensure that each control objective is met. The controls should:

- Ensure that assets are safeguarded.
- Ensure accuracy and reliability of the District's accounting data and records.
- Ensure compliance with all policies and procedures prescribed by management.
- Promote the operational efficiency of the organization.

OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES

The objectives of the investigation were:

1. Determine if policies and procedures exist for the handling of receipts and disbursement from student activity accounts.
2. Determine if the allegation was substantiated.
3. Determine if an inventory of equipment is properly maintained.

SCOPE

AOA reviewed financial and other documentation, including police reports, for Fiscal Year 2005, and Fiscal Year 2006 through April 2006, relative to the internal accounts maintained at W.T. Chipman Middle School and North, South, East, and Central Elementary Schools.

The investigation included a review of documentation relative to inventory of equipment conducted at North Elementary, W.T. Chipman Middle School, and Lake Forest High School during May 2005.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

AOA developed procedures to address the aforementioned objectives. Procedures consisted of (a) interviews and inquiry of key personnel and (b) inspection of documentation pertaining to school internal accounts and equipment inventory.

FINDINGS AND RECOMMENDATIONS

Objective 1

Determine if policies and procedures exist for the handling of receipts and disbursement from student activity accounts.

Finding

The State of Delaware *Budget and Accounting Manual*, Chapter II states, “Internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation. The traditional system of an internal control plan consists of all the methods used to safeguard assets, to promote accuracy and reliability of the organization’s accounting and data records, to encourage compliance with all policies and procedures prescribed by management, and to promote the operational efficiency of the organization.” Chapter II further states that authorization, capture, and access are widely accepted as elements of good control.

- Authorization – Ensuring that all transactions are approved by management.
- Capture – Ensuring that all transactions are recorded.
- Access – Ensuring that only authorized individuals, consistent with their job responsibilities, have appropriate access to assets.

Per review of Lake Forest School District Procedure No. DM-2005-R, the District does not require a pre-numbered receipt to be issued for the receipt of funds by the schools. Pre-numbered receipts allow for a record that funds were actually received and provide an audit trail to help ensure they are deposited.

All agencies that handle cash receipts must have both an awareness of and show a commitment to strong internal controls for cash receipts. Any system implemented should include provisions for receipting all collections and reconciling those receipts with deposits. Issuing receipts is critical to maintaining the integrity of the system and ensuring that all collections have been accounted for properly. The lack of adequate internal controls over cash receipts places the District at risk for accounting errors and/or loss of funds.

District Procedure No. DM-2005-R states, “All receipts, including cash, shall be deposited daily to the internal account.” AOA found that W.T. Chipman Middle School and North, South, East, and Central Elementary Schools did not make daily deposits in accordance with District policy. Noncompliance with the District policy results in an increased risk of loss or theft.

Recommendation

Lake Forest School District:

- Develop procedures requiring the issuance of pre-numbered receipts;
- Require schools to reconcile receipts to the deposit slips, bank statements, and accounting records;
- Require club sponsors to maintain records of receipts and disbursements;
- Reinforce to the schools the importance and requirement of timely deposits; and
- Monitor adherence to internal control procedures for the handling of cash and checks and the disbursement of funds at all schools.

Auditee Response

The Lake Forest School District will include wording in their internal account policy (DM-2005-R) to include a requirement of pre-numbered receipts. The District already requires that (1) schools to reconcile receipts to deposit slips, bank statements, and accounting records, (2) club sponsors to maintain records of receipts/disbursements and reconcile their club accounts at the end of each month, (3) timely

FINDINGS AND RECOMMENDATIONS

deposits are made whenever possible, and (4) monitor the adherence to our internal controls through audit visits by the school district Business Manager.

Objective 2

Determine if the allegation was substantiated.

Finding

AOA determined that a theft occurred at North Elementary School in February 2006. The theft was reported to the Felton Police Department who, through their investigation, determined that there is no viable suspect(s) at this time. The theft involved \$360 in funds for tuition payment for the Pre-Kindergarten Program. The funds were taken from a filing cabinet in the school front office and were reported missing by the school secretary.

AOA determined that school personnel did not issue a receipt when the funds were received from a student. As a result, even though a theft was reported, AOA found no written documentation that the secretary received the funds.

Recommendation

See recommendation for Objective 1.

Auditee Response

The current District policy requires staff to issue a receipt for revenues received. A follow-up training on this policy will be offered this summer to all clerical staff reemphasizing the necessity for receipts and the new requirement that they be numbered.

Objective 3:

Determine if an inventory of equipment is properly maintained.

Finding

The District does not have written policies and procedures for inventory control of equipment, public appeal items, and technology hardware (laptop and desktop computers, monitors, scanners, printers, palm pilots, etc.).

AOA determined that the District maintains an inventory database of technology hardware. However, this listing was not accurate. At the end of school year 2005, inventory listings were sent to each school to be completed by the school employees (teachers, administrators, and support personnel). School employees completed the listings, indicating the technology hardware located in their rooms. Many of the listings were returned to the District indicating the equipment was not located or that equipment not contained on the listing was present. The District did not reconcile these discrepancies to the District database.

The State of Delaware *Budget and Accounting Manual* Chapter I states, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control. Such departmental policies/procedures shall be in writing, and will reasonably ensure that: All assets can be accounted for and safeguarded against waste, loss, unauthorized use and misappropriation."

Inaccurate/insufficient inventory records and the lack of policies and procedures results in increased risk of misappropriation of assets. Inventories are necessary to reduce the risk of waste, loss, or unauthorized use.

FINDINGS AND RECOMMENDATIONS

Recommendation

Lake Forest School District:

- Develop an effective and efficient inventory system.
- Develop policies and procedures to ensure that assets are recorded, adequately safeguarded, and that access to assets is limited in accordance with management's authorization.

Auditee Response

The District will (1) develop an effective and efficient inventory system, and (2) develop a District wide policy and procedure to set out safeguards for our technology and public display items.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General

Other

The Honorable Valerie Woodruff, Secretary, Department of Education

Dr. Daniel D. Curry, Superintendent, Lake Forest School District

Ms. Maryellen B. Brown, Business Manager, Lake Forest School District

School Board Members, Lake Forest School District